

CITY OF HIGHLAND, KANSAS

STATUTORY BASIS FINANCIAL STATEMENTS  
For the year ended December 31, 2010

And

INDEPENDENT AUDITORS' REPORT

**Long CPA, PA**  
**A Professional Association**  
**Certified Public Accountants**

# CITY OF HIGHLAND, KANSAS

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# Long CPA, PA

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The Honorable Mayor and City Council  
P.O. Box 325  
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## INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the financial statements of the City of Highland, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

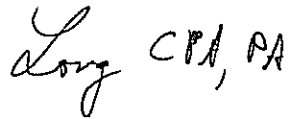
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonable determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2010, or the changes in its financial position for the year then ended.

The Honorable Mayor and City Council  
Highland, Kansas

In our opinion the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2010, and its cash receipts and expenditures, budgetary comparisons, and changes in long-term debt and long-term debt maturities for the year then ended, on the basis of accounting described in Note 1.

A handwritten signature in black ink that reads "Long CPA, PA". The signature is written in a cursive, flowing style.

Long CPA, PA  
A Professional Association  
Certified Public Accountant

June 25, 2011

CITY OF HIGHLAND, KANSAS  
Summary of Cash Receipts, Expenditures, and Unencumbered Cash  
For the Year Ended December 31, 2010

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
<b>Governmental Type Funds:</b>							
General Funds							
General	\$ 54,372	-	\$ 364,332	\$ 333,020	\$ 85,684	-	\$ 85,684
Special Revenue Funds							
Special Highway	143,849	-	47,275	57,363	133,761	-	133,761
Degginger Fund	40,444	-	894	-	41,338	-	41,338
Building Maintenance	1,125	-	7,088	3,907	4,306	-	4,306
Diversion Fund	1,651	-	4,000	2,558	3,093	-	3,093
Parks and Recreation Fund	5,267	-	6,020	6,444	4,843	-	4,843
<b>Proprietary Type Funds:</b>							
Water Utility	107,519	-	206,472	202,693	111,298	-	111,298
Sewer Utility	57,105	-	137,706	147,298	47,513	-	47,513
Capital projects							
Capital Projects Fund	27,098	-	-	-	27,098	-	27,098
<b>Total Reporting Entity</b>	<b>\$ 438,430</b>	<b>\$ 0</b>	<b>\$ 773,787</b>	<b>\$ 753,283</b>	<b>\$ 458,934</b>	<b>\$ 0</b>	<b>\$ 458,934</b>
<b>Composition of Cash</b>							
					Checking Accounts		\$ 327,596
					Savings Accounts		
					Petty Cash		
					Municipal Investment Pool		
					Certificates of Deposit		131,338
					Total Reporting Entity		\$ 458,934

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS  
Summary of Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments to Comply with Legal Max</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Governmental Type Funds</u>						
General Funds						
General	\$ 394,970	\$ 0	0	\$ 394,970	\$ 333,020	\$ 61,950
Special Revenue Funds						
Special Highway	62,000	0	0	62,000	57,363	4,637
Capital Projects	20,000	0	0	20,000	0	20,000
Proprietary Type Funds						
Water Utility Fund	248,000	0	0	248,000	202,693	45,307
Sewer Utility Fund	164,000	0	0	164,000	147,298	16,702

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS  
GENERAL FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 94,558	\$ 101,439	\$ (6,881)
Motor vehicle tax	16,693	17,487	(794)
RV tax	329	305	24
Redemption District	1,057	1,566	(509)
Gross Earnings tax	7,279	6,677	602
Franchise fees	65,302	56,000	9,302
Intergovernmental revenues			0
Sales tax	120,077	80,000	40,077
Licenses, rent, permits	768	11,000	(10,232)
Municipal court	42,157		42,157
Interest income	2,817	5,000	(2,183)
Miscellaneous revenues	5,315	15,000	(9,685)
Reimbursements	7,980	8,000	(20)
Operating transfers			0
Total Cash Receipts	<u>364,332</u>	<u>302,474</u>	<u>61,858</u>
EXPENDITURES			
General government			
Personnel services	140,586	120,000	(20,586)
Commodities	86,756	54,000	(32,756)
Contractual	52,520	110,000	57,480
Public safety	24,379		(24,379)
Highways and streets			0
Recreation and culture	940	15,000	14,060
Capital outlay		95,000	95,000
Debt Service	5,780	970	(4,810)
Operating transfers	22,059		(22,059)
Adjustment for qualifying budget credits			0
Total Expenditures	<u>333,020</u>	<u>\$ 394,970</u>	<u>\$ 61,950</u>
Receipts Over (Under) Expenditures	31,312		
Unencumbered Cash, Beginning	54,372		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>85,684</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS  
SPECIAL HIGHWAY FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenue			
Ad valorem property tax	\$	\$	\$ 0
Delinquent tax			0
Motor vehicle tax			0
RV tax			0
16/20M vehicle tax			0
Fuel tax	25,216	27,400	(2,184)
Sales tax			0
Bond proceeds			0
Interest income			0
Miscellaneous revenues			0
Operating transfers	<u>22,059</u>		<u>22,059</u>
Total Cash Receipts	<u>47,275</u>	<u>27,400</u>	<u>19,875</u>
<b>EXPENDITURES</b>			
Commodities	52,363	55,000	2,637
Contractual	5,000	7,000	2,000
Capital outlay			0
Debt Service			0
Operating transfers			0
Adjustment for qualifying budget credits			<u>0</u>
Total Expenditures	<u>57,363</u>	<u>\$ 62,000</u>	<u>\$ 4,637</u>
Receipts Over (Under) Expenditures	(10,088)		
Unencumbered Cash, Beginning	143,849		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 133,761</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS  
WATER FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Charges for services	\$ 201,661	\$ 193,000	\$ 8,661
Interest income			0
Miscellaneous revenues	4,811		4,811
Operating transfers			0
	<u>206,472</u>	<u>193,000</u>	<u>13,472</u>
<b>EXPENDITURES</b>			
Production			
Personnel services	84,516	76,800	(7,716)
Commodities	52,500	115,450	62,950
Contractual	47,000	32,550	(14,450)
Refuse collection			0
Capital outlay		21,000	21,000
Debt service	16,051		(16,051)
Miscellaneous	2,626	2,200	(426)
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>202,693</u>	<u>\$ 248,000</u>	<u>\$ 45,307</u>
 Receipts Over (Under) Expenditures	 3,779		
Unencumbered Cash, Beginning	107,519		
Prior Year Cancelled Encumbrances	<u>0</u>		
 Unencumbered Cash, Ending	 <u>\$ 111,298</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS  
SEWER FUND  
Statement of Cash Receipts and Expenditures - Actual and Budget  
For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 137,706	\$ 137,000	\$ 706
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>137,706</u>	<u>137,000</u>	<u>706</u>
Total Cash Receipts			
EXPENDITURES			
Operations			
Personnel services	52,627	46,000	(6,627)
Commodities	17,529	15,000	(2,529)
Contractual	20,682	43,944	23,262
Capital outlay		5,000	5,000
Debt service	56,460	54,056	(2,404)
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>147,298</u>	<u>\$ 164,000</u>	<u>\$ 16,702</u>
Total Expenditures			
Receipts Over (Under) Expenditures	(9,592)		
Unencumbered Cash, Beginning	57,105		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>47,513</u>		

The notes to financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS  
 CAPITAL PROJECTS FUND  
 Statement of Cash Receipts and Expenditures - Actual and Budget  
 For the Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
CASH RECEIPTS			
Charges for services	\$	\$	\$ 0
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts			
EXPENDITURES			
Operations			
Personnel services			0
Commodities			0
Contractual		20,000	20,000
Capital outlay			0
Debt service			0
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>0</u>	<u>20,000</u>	<u>20,000</u>
Total Expenditures			
	<u>0</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>
Receipts Over (Under) Expenditures	0		
Unencumbered Cash, Beginning	27,098		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>27,098</u>		

The notes to financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS  
 ANY NONBUDGETED FUNDS  
 Statement of Cash Receipts and Expenditures  
 For the Year Ended December 31, 2010

	<u>Degginger Fund</u>	<u>Building Maintenance</u>	<u>Diversion Fund</u>
<b>CASH RECEIPTS</b>			
Federal grants	\$	\$	\$
State aid/grants			
Licenses, rent, permits		2,800	4,000
Charges for services			
Interest income	894		
Miscellaneous revenues		4,288	
Operating transfers			
	<u>894</u>	<u>7,088</u>	<u>4,000</u>
Total Cash Receipts			
<b>EXPENDITURES</b>			
Operations			
Personnel services			
Commodities		1,807	2,393
Contractual		2,100	165
Capital outlay			
Debt service			
Operating transfers			
Adjustment for qualifying budget credits			
	<u>0</u>	<u>3,907</u>	<u>2,558</u>
Total Expenditures			
Receipts Over (Under) Expenditures	894	3,181	1,442
Unencumbered Cash, Beginning	40,444	1,125	1,651
Prior Year Cancelled Encumbrances	<u>0</u>	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	\$ <u><u>41,338</u></u>	\$ <u><u>4,306</u></u>	\$ <u><u>3,093</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND, KANSAS  
 ANY NONBUDGETED FUNDS  
 Statement of Cash Receipts and Expenditures  
 For the Year Ended December 31, 2010

	Parks and Recreation Fund
	<hr/>
CASH RECEIPTS	
Federal grants	\$
State aid/grants	
Licenses, rent, permits	6,020
Charges for services	
Interest income	
Miscellaneous revenues	
Operating transfers	<hr/>
Total Cash Receipts	<hr/> 6,020 <hr/>
EXPENDITURES	
Operations	
Personnel services	2,907
Commodities	861
Contractual	2,676
Capital outlay	
Debt service	
Operating transfers	
Adjustment for qualifying budget credits	<hr/>
Total Expenditures	<hr/> 6,444 <hr/>
Receipts Over (Under) Expenditures	(424)
Unencumbered Cash, Beginning	5,267
Prior Year Cancelled Encumbrances	<hr/> 0 <hr/>
Unencumbered Cash, Ending	\$ <hr/> 4,843 <hr/>

The notes to the financial statements are an integral part of this statement.

## CITY OF HIGHLAND, KANSAS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 – Summary of Significant Accounting Policies

##### Financial Reporting Entity

The City of Highland, Kansas is a municipal corporation governed by an elected six member council. The City as an entity has been defined to include, on a combined basis, (a) the City of Highland, Kansas (b) organizations for which the City of Highland, Kansas is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the City of Highland, Kansas are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are currently no organizations which meet the foregoing criteria for being combined in the City's report.

##### Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City for the year 2010:

##### Governmental Funds

**General Fund** - To account for all unrestricted resources except those required to be accounted for in another fund.

**Special Revenue Funds** - To account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to be expended for specified purposes.

**Debt Service Funds** – To account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt.

**Project Funds** – To account for major capital expenditures not financed by other funds.

**CITY OF HIGHLAND, KANSAS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Proprietary Funds**

**Enterprise Funds** – to account for operations that are financed and operated in a manner similar to private business enterprises—where stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges—or where periodic determinations of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Statutory Basis of Accounting**

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

**Departure from Generally Accepted Accounting Principles (GAAP)**

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursement, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principle and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally

## CITY OF HIGHLAND, KANSAS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 – Summary of Significant Accounting Policies (Continued)

##### Departure from Generally Accepted Accounting Principles (Continued)

accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

##### Reimbursed Expenses

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

##### Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

## **CITY OF HIGHLAND, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 – Summary of Significant Accounting Policies (Continued)**

##### **Budgetary Information (continued)**

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. The budgets of the Water Fund and Sewer Fund were amended during the current year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting. Revenues are recognized when measurable and available to finance current year expenditures. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, trust funds and the following special revenue funds: 1) Degginger Fund, 2) Building Maintenance Fund, 3) Diversion Fund, 4) Parks and Recreation Fund

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

##### **Inventories and Prepaid Expenses**

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

#### **NOTE 2 – Deposits and Investments**

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located

## CITY OF HIGHLAND, KANSAS

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 – Deposits and Investments (Continued)

and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

#### Concentration of Credit Risk

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require the government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

At December 31, 2010, the government's carrying amount of deposits was \$ 458,934 and the bank balance was \$ 463,626. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance at year end, \$ 250,000 was covered by federal depository insurance and \$ 213,626 was collateralized with securities held by the pledging financial institutions' agents in the government's name.

#### Custodial Credit Risk- Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

## **CITY OF HIGHLAND, KANSAS**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 3 – Defined Benefit Pension Plan**

**Plan Description** – The City of Highland, Kansas participates in the Kansas Public Employees Retirement System (KPERS). KPERS is a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

**Funding Policy** – K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contributions rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2010 is 7.74%. The City of Highland, Kansas employer contributions to KPERS for the years ended December 31, 2010 and 2009, were \$10,861 and \$7,718, respectively, equal to the statutory required contributions for each year.

#### **NOTE 4 – Risk Management**

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

#### **NOTE 5 – Compliance with Kansas Statutes**

We noted no violations of Kansas Statutes for the period under audit.

#### **NOTE 6 – Compensated Absences**

City policies regarding vacation pay provide full-time employees vacations with pay for two weeks, then three weeks after five years of service, to accumulate to six weeks maximum. Sick leave for full time employees accrues at two weeks per year to accumulate to six weeks maximum.

# CITY OF HIGHLAND, KANSAS

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 – Interfund Transactions

Operating transfers were as follows:

From	To	Statutory Authority	Amount
General Fund	Special Highway Fund	K.S.A. 79-2526	\$ 22,059

### NOTE 8 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

### NOTE 9 – Subsequent Events Review

Subsequent events for management's review have been evaluated through June 25, 2011. The date in the prior sentence is the date the financial statements were available to be issued.

CITY OF HIGHLAND, KANSAS  
Statement of Changes in Long-Term Debt  
For the Year Ended December 31, 2010

**Note 10 - Long Term Debt**

Changes in long-term liabilities for the City for the year ended December 31, 2010 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds Water System	4.00%-4.25	10/1/01	75,000	10/1/12	\$ 30,000	\$	\$ 10,000	\$ (10,000)	\$ 20,000	\$ 1,240
Leases										
Firefighting equipment	1.00%	6/1/05	17,000	6/1/25	13,828		834	(834)	12,994	136
Bobcat lease	0.00%	4/6/10	32,312	4/6/12	0	32,312	12,024	20,288	20,288	-
KDHE Loan: Kansas Department of Health and Environment(Wastewater)	3.44%	8/1/99	797,380	9/1/18	366,323		41,811	(41,811)	324,512	11,355
<b>Total Long Term Debt</b>					<b>\$ 410,151</b>	<b>\$ 32,312</b>	<b>\$ 64,669</b>	<b>\$ (32,357)</b>	<b>\$ 377,794</b>	<b>\$ 12,731</b>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2011	2012	2013	2014	2015	2016-2020	2021-2025	Total
<b>Principal</b>								
General Obligation Bonds	\$ 10,000	\$ 10,000	\$	\$	\$	\$	\$	\$ 20,000
Special Assessment Bonds								0
Certificates of Participation								0
Capital Leases	12,866	9,115	859	868	876	4,515	4,183	33,282
Revenue Bonds								0
KDHE Loans	42,390	43,861	45,382	46,957	48,586	97,336		324,512
Temporary Notes								0
<b>Total Principal</b>	<b>65,256</b>	<b>62,976</b>	<b>46,241</b>	<b>47,825</b>	<b>49,462</b>	<b>101,851</b>	<b>4,183</b>	<b>377,794</b>
<b>Interest</b>								
General Obligation Bonds	840	425						1,265
Special Assessment Bonds								0
Certificates of Participation								0
Capital Leases	128	119	111	102	94	335	104	993
Revenue Bonds								0
KDHE Loans	10,802	9,331	7,809	6,235	4,605	4,095		42,877
Temporary Notes								0
<b>Total Interest</b>	<b>11,770</b>	<b>9,875</b>	<b>7,920</b>	<b>6,337</b>	<b>4,699</b>	<b>4,430</b>	<b>104</b>	<b>45,135</b>
<b>Total Principal and Interest</b>	<b>\$ 77,026</b>	<b>\$ 72,851</b>	<b>\$ 54,161</b>	<b>\$ 54,162</b>	<b>\$ 54,161</b>	<b>\$ 106,281</b>	<b>\$ 4,287</b>	<b>\$ 422,929</b>